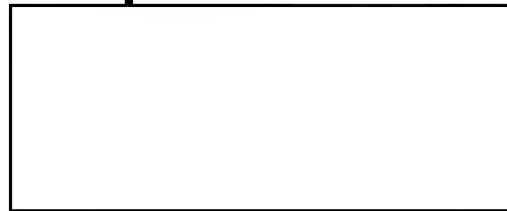


**Top Secret**



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**C** ARAB STATES - ISRAEL: Military activity slacked off yesterday, with only minor cease-fire violations reported. Diplomatic activity intensified, however, primarily in response to reports that both Egypt and Israel had accepted a US-backed peace plan.

On the Egyptian front there were only minor exchanges of small arms and artillery fire yesterday, although the Israelis continue to report minor Egyptian initiatives that Tel Aviv interprets as possible indicators of an Egyptian intention to resume hostilities. A senior Israeli defense official claimed that the Egyptian Second Army on the east bank of the canal was removing mines in front of its positions and that camouflage nets were being removed from tanks. In addition, the official claimed that Cairo was moving armored units closer to both the northern and southern sectors of the Israeli salient on the west bank. An Egyptian military spokesman, meanwhile, charged that the Israelis were committing daily violations of the cease-fire; he complained that on Wednesday they had prevented Red Cross representatives from reaching Suez City.

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Damascus claimed to have downed one Phantom. [redacted]

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Tel Aviv denies that it lost any planes. This is the third alleged incident in as many days on the Syrian front, which had been generally quiet from 24 October until last weekend. On the Syrian front, as on the Egyptian, [redacted] the two sides are continuing their minor jockeying for favorable positions to guard against the possibility that hostilities might resume.

Both Egypt and Israel reportedly have accepted a US-backed plan to implement more fully the UN cease-fire proposals and to proceed toward opening direct peace negotiations. Although no official announcements of the details of the plan have yet been made, the Israeli state radio announced yesterday [redacted]

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that the five-point agreement calls for: a prisoner of war exchange; a UN-supervised supply corridor to the encircled Egyptian Third Army; a lifting of the Egyptian blockade of the Bab al-Mandab Strait; negotiations between Egyptian and Israeli military commanders to arrange "more convenient" cease-fire lines; and direct peace negotiations upon fulfillment of the above steps. Israeli newspapers report that the plan also calls for an eventual withdrawal of Israeli troops "from Egypt" and the Suez Canal, and for Cairo to withdraw from the east bank of the Canal. No Israeli official has commented directly on the peace plan, although Defense Minister Dayan yesterday alluded to it when he said Israel was "perhaps for the first time at the opening of a true peace settlement" with the Arabs.

Egyptian media have eschewed direct comment on the agreement except to deny Israeli and Western press reports that Cairo has pledged to lift its blockade of Bab al-Mandab. Referring to the blockade, Cairo's authoritative Middle East News Agency insisted that Tel Aviv pledge to implement the peace plan "without change and without resorting to prevarications and distortions." The semiofficial Cairo daily Al Ahram hinted, however, that the blockade's status was in fact involved in the preparations for an eventual Arab-Israeli peace conference. In a move that could signal differing Egyptian and Israeli interpretations of what the agreement entails, a spokesman for Egypt's Foreign Ministry yesterday again insisted that Israeli withdrawal to the 22 October cease-fire lines remains a prerequisite to progress toward peace. Unofficial Israeli interpretations of the agreement suggest no Israeli obligation to withdraw to the 22 October positions.

Both Cairo and Tel Aviv are taking steps to explain their positions to their allies. Israeli Prime Minister Meir hopes to repair Israel's relations with several European states this weekend in London, where she will attend a meeting of European Socialist leaders called at her request. Foreign Minister Eban is expected to consult with US and UN officials in New

York early next week. A personal emissary of Egyptian President Sadat yesterday made quick calls on Syrian President Asad and Saudi King Faysal and is scheduled to make additional stops in Kuwait, Libya, and Algeria.

Palestine Liberation Organization Chairman Yasir Arafat arrived in Baghdad yesterday, almost certainly to solicit continued Iraqi support for the fedayeen should they--despite Baghdad's disapproval--decide to participate in a future peace conference. Arafat may also appeal for help in quieting the vehement criticisms of the moderate Palestinian leadership by spokesmen of the two small but vocal fedayeen organizations that receive important Iraqi support, the Popular Front for the Liberation of Palestine and the Arab Liberation Front. Rumors continue to circulate, and are now being repeated by the Soviets, that Arafat will soon extend his travels to Moscow, where he would endeavor to firm up Soviet support for the Palestinians in any future peace conference. The issue of Palestinian representation at such a conference is far from resolved, both because the fedayeen remain divided among themselves and because Israel continues to be opposed to their presence in any negotiations. Prime Minister Meir on 7 November reaffirmed this opposition and suggested to the US Ambassador in Tel Aviv that the Palestinians might adequately be included in a Jordanian delegation. The Lebanese, meanwhile, reportedly are eager to ensure a seat for themselves at any future conference in order to push for a Palestinian state that could absorb Lebanon's sizable Palestinian refugee and terrorist populations.

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**(C)** The United Nations Emergency Force (UNEF) is encountering additional difficulties. A UN Secretariat official has complained that Israel is placing disabling restrictions on UNEF and that a complaint might have to be lodged with the Security Council. The most serious problem stems from Israel's refusal to permit UNEF contingents from states that have severed diplomatic relations with Tel Aviv to serve in Israeli-held territory. Three such states are now on the force and more may be added. Further adding to UNEF's problems was official French refusal yesterday to provide airlift and other logistic support. The French decision, reflecting Paris' pique over the Security Council's decision to bar its permanent members from serving on the UNEF, will increase concern that the Soviets will dominate the airlift. Moscow already has assumed responsibility for transporting Finnish, Swedish, and Austrian UNEF contingents to the Middle East.

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YUGOSLAVIA-USSR: The main purpose of President Tito's announced visit to Moscow later this month undoubtedly will be to discuss the Middle East situation.

Tito's decision to go to Moscow was taken against a background of some domestic doubt about the benefits of his strongly pro-Arab policies. His support of the Arabs has inevitably led to a close identification with Moscow's position on the Arab-Israeli conflict.

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At the same time, Belgrade's strident pro-Arab stand has emphasized its estrangement from the US on a major issue.

Despite some popular uneasiness, Tito's enormous personal prestige is still unscathed. The trip to Moscow, however, will do nothing to allay concerns that Yugoslavia has moved too close to Moscow. Tito may well try to correct this impression by publicly emphasizing the "nonaligned" and independent aspects of his policy while in Moscow. In any case, he will want to take personal stock of Soviet intentions in order to clarify his future options with respect to support of Egypt.

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CANADA: Minister of Energy MacDonald has stated that Canada would stop exporting petroleum products to the US if the Arabs made this a condition for continuing crude oil shipments to eastern Canada. MacDonald declared, however, that Ottawa would not cut off exports of crude from western Canada to the US even if an Arab ultimatum were received. Nevertheless, over the long term, Ottawa's intention to extend the Alberta-Ontario crude oil pipeline to Montreal would divert part of the 1.2 million barrels per day now exported to the US.

About 130,000 barrels per day of oil products, mainly fuel oil, are shipped to the US from refineries in Nova Scotia and Newfoundland, which import crude from the Middle East and other countries.

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EUROPEAN COMMUNITIES: EC spokesmen have expressed sharp disappointment with Washington's decision to delay legislation that would establish US negotiating authority for the multilateral trade negotiations.

EC Commissioners Soames and Gundelach, who are responsible for the community's foreign and trade relations, believe the multilateral negotiations will suffer serious delay as a result of the postponement of congressional action. Soames said there is no escaping the fact that this will mean a substantial loss of momentum in the preparations for the trade talks now under way in Geneva. The commissioners now believe that substantive negotiations are not likely to begin before 1975.

Despite their negative reaction, both Soames and Gundelach expressed interest in being as helpful as possible in handling the immediate situation resulting from the postponement. The EC Commission's official statement on 8 November was restrained, expressing a continuing commitment to the opening of negotiations "at the earliest possible date."

The Commission's disappointment over the delay in the negotiations reflects the prevailing view that any relaxation of pressure for developing an EC negotiating position could remove a force for community solidarity. A number of the EC countries that were unenthusiastic about the negotiations in the first place will not share the Commission's unhappiness about the postponement. This is particularly true because the pressure will be relieved for the EC to reach a unified position on agricultural commodities in these negotiations.

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ARGENTINA: President Peron is attempting to establish himself as a leading spokesman for Latin America.

He has decided to visit the UN in December, apparently in the hope that he can arrange a meeting with President Nixon, although the Argentine press is billing the trip as simply an opportunity for Peron to expound his views on international affairs. Foreign Minister Vignes is strongly advocating such a meeting as a follow-up to his talks at the UN last month with Secretary Kissinger. Vignes considers that these talks set the stage for reducing strains between the two countries.

The recent appointment of a new and well-qualified ambassador to Washington suggests that Peron wishes to improve relations. Nevertheless, while Buenos Aires has made a serious effort to minimize differences with the US, there are several bilateral issues that are potentially troublesome, such as pending foreign investment laws and pressure on US subsidiaries in Argentina to sell to Cuba. It is unlikely, however, that Peron sees these questions as major obstacles to a meeting with the President.

Peron also is moving to forge closer ties with other Latin leaders. He has invited Bolivian President Banzer and Panamanian strongman Torrijos to make state visits to Buenos Aires this month,

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This flurry of diplomatic activity does not signal any major changes in Argentina's foreign policy objectives. Rather, it is probably designed to further Peron's efforts to present himself as

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an elder statesman and hemisphere leader and help divert public attention from pressing domestic problems. The overtures to Bolivia [redacted] appear calculated to reduce the influence of arch-rival Brazil within the region, while Peron probably views the meeting with Torrijos as an opportunity to associate himself with the Panamanian leader's outspoken nationalism. [redacted]

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CHILE: The junta government appears increasingly confident that it can forestall organized violence from the left; at the same time it is becoming more aware that the impact of its economic recovery program on the working class poses a potentially more serious threat.

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[redacted] the regime sees no immediate prospect of a leftist counterattack. On the other hand, the junta is demonstrating increased concern over resentment of its economic policies. Only recently, government spokesmen were advising workers' wives to stop buying for a while if they thought prices were too high. This week, they have turned to warning businessmen not to allow the lure of profit to sabotage the government's efforts to win over the workers.

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The junta is wary of possible pitfalls in the economic recovery plan. For instance, the attempt to spur production by permitting higher prices could backfire if the restrictive income policy cuts demand too much. Economy Minister Leniz has announced that further price adjustments must wait promulgation of a new wage policy in January. In the meantime, the junta is likely to move quickly to correct economic abuses such as failure to pay wage bonuses it already has ordered.

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NATO-MBFR: The NATO delegates to the force reduction negotiations in Vienna formally agreed yesterday to present as soon as possible a memorandum containing a general outline of the allied negotiating position. In the meantime, the allied representatives hope to avoid detailed discussions of the draft agreement submitted yesterday by the Soviet delegation. The North Atlantic Council will consider the allied tactical plan today.

DENMARK: Prime Minister Jorgensen's decision to resign and hold new elections early next month is almost certain to result in further fragmentation of Denmark's political life.

The Social Democrats, with the cooperation of the extreme left Socialist People's Party, have maintained a one-vote majority in parliament for two years. All major parties have wanted new elections, but have hesitated because of the popularity of a newly formed antitax party. Most parties have expected the popularity of the antitax party to fade, but it continues to receive the support of 10-15 percent of the electorate in some polls.

The fall of Jorgensen's government was precipitated when Social Democratic parliamentarian Erhard Jakobsen resigned from the party on 6 November. Jakobsen originally pledged to support the government on most issues except housing; this appeared to give the government control over the timing of new elections. During a parliamentary vote on taxation on 8 November, however, Jakobsen was absent and a tie vote resulted. Jorgensen thereupon announced that he would resign and called new elections for 4 December.

Jakobsen plans to form a new party to reflect the views of conservative, middle-class Social Democratic voters. He is expected to persuade a number of disaffected Social Democratic members of parliament to join his party, thus further weakening the Social Democrats. By calling new elections so soon, Jorgensen hopes to prevent Jakobsen from having time to meet the requirements that would enable his new party to run its own candidates in the election.

Even if Jorgensen succeeds, however, Social Democratic discipline has been shattered. Furthermore, the antitax party has already qualified for the elections and is expected to disrupt voting patterns. Danish voters may respond by dispersing their votes in such a way that formation of a new majority government will be extremely difficult.

PORUGAL: Cabinet changes made this week by Prime Minister Caetano will enable him to tighten his grip on the government.

With the departure of Interior Minister Rapazote, there are only two holdovers from the Salazar era, which ended in 1968. One of these--the experienced Overseas Minister Silva Cunha, now a staunch supporter of Caetano and an advocate of holding onto the overseas territories--has been moved to the defense portfolio. He thus becomes the first civilian defense minister in a decade. The outgoing defense minister reportedly had caused dissatisfaction in the army because of his personnel policies. To further ease the army's discontent over not having equal cabinet representation with the navy, Caetano upgraded the army post to a separate ministry.

Caetano's choice of an ineffectual but long-time associate to head the powerful Overseas Ministry suggests that the Prime Minister intends to exercise greater control over colonial policy and continue prosecution of the war in the African provinces.

The appointment of the dynamic Silva Pinto as minister of corporations and social security shows Caetano's determination to improve social benefits. The retention of Education Minister Veiga Simao is a victory for those advocating less repressive measures in dealing with student unrest. 25X1

Japan's Energy Dilemma

The Arabs' use of their "oil weapon" has forcefully demonstrated the vulnerability of the Japanese economy--its almost complete dependence on foreign sources for vital energy supplies.

Japan stands to lose roughly 600,000 barrels a day (b/d) of oil imports, equal to about 11 percent of consumption, as a result of the cutback by the Arab producers. The major international oil firms that supply most of the oil have already notified the Japanese of impending delivery cuts. Assuming additional Arab production cutbacks of 5 percent per month after November, Japan's import losses would reach roughly 20 percent of normal requirements during December and January, when fuel consumption is at its seasonal peak. Nearly 45 percent of Japan's oil comes from the Arab nations, about 40 percent from Iran, and most of the remainder from Indonesia.

The government already is preparing a three-phase energy-saving campaign, starting with the issuance of consumption guidelines. The second phase would require industry to reduce fuel consumption. Finally, emergency legislation permitting rationing would be sought. The government already has allocated propane supplies, oil refiners have reduced deliveries to customers by 10 percent, and power companies have asked major industrial consumers to cut consumption by the same amount.

Impending major oil shortages have forced the Japanese to reassess their neutral political stance in the Middle East. Until this week, the Tanaka government had clung to the hope that a political settlement of the Middle East crisis would come before Japan had to shift its policy toward outright support for the territorial claims of the Arabs. Prior to 6 November, the Japanese had maintained that their vote for UN Security Council Resolution 242 showed their support and sympathy for the Arab cause. This was the message of a note the Japanese presented to Arab envoys in Tokyo on 19 October. The Arabs, however, pressed for a more positive Japanese stand in their favor.

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Tokyo finally acquiesced, and the Japanese cabinet issued a resolution on 6 November that strongly urged Israel to withdraw to the pre-June 1967 borders as quickly as possible. This formal and public government action was accurately characterized by the Tokyo press as a shift from a neutral to a pro-Arab posture. Tokyo is awaiting an Arab response to this move.

The Middle East oil crisis has added impetus to Tokyo's efforts, which have been under way for some time, to diversify its sources of energy and gain greater control over supplies. Japan's consumption of energy is increasing rapidly. Petroleum now satisfies about 75 percent of energy needs, and requirements are expected to more than double by 1980. Nuclear power and natural gas needs also will grow substantially, but these sources of energy probably will supply only about 10 percent of total requirements in 1980.

Japan's long-term goal on energy matters is to obtain reliable supplies of petroleum while reducing dependence on the major international oil companies. Tokyo's stated policy is to obtain at least 30 percent of its petroleum requirements from sources other than these major companies by 1985. Moreover, Tokyo is encouraging involvement by Japanese firms in the supply of liquefied natural gas (LNG). It would also like to lessen its dependence on the US for enriched uranium.

To advance these policy goals, the Japanese Government wants to deal directly with oil-exporting countries. Japan already has concluded deals involving direct purchases from Abu Dhabi and Saudi Arabia for about 160,000 b/d in 1975, plus an additional, but unknown, quantity from Iran. The Japanese also have made offers--probably attractive ones--to buy oil directly from other Persian Gulf countries, Indonesia, and some Latin American and African producers. The Japanese most recently made a proposal to Nigeria to finance exploration and development of four offshore blocks in return for the right to purchase from the Nigerian Oil Corporation any oil found.

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Japanese firms also are making strong bids to buy into foreign-owned concessions to get a share of the output. During the past year several deals have been concluded, the most significant of which was the purchase of 45 percent of the British Petroleum Company's interest in an Abu Dhabi concession. Because the concession already is producing fairly large quantities--500,000 b/d--the Japanese were willing to pay a premium price for their share. The Japanese Government was a strong supporter of the deal and is putting up most of the money. The Japanese have expressed willingness to help finance North Sea concessions owned by the UK, but the British have shown no interest.

Japan has had considerable success in lining up long-term supplies of LNG. Natural gas requirements are projected to increase more than tenfold by the mid-1980s and, because domestic production is insignificant, nearly all requirements will have to be met with imported LNG. The Japanese have already signed long-term supply contracts covering at least 40 percent of projected needs for 1985, and if other negotiations now under way--including the proposed development of the Yakutsk gas fields in Siberia--are successful, Japan will secure all of its projected gas needs for 1985.

Because of the enormous costs and complex technology involved in constructing gas pipelines, liquefaction plants, and tankers, the Japanese are jointly undertaking LNG projects with US and other private foreign firms. The largest LNG venture involving both the US and Japan is the Yakutsk project, which could provide as much as one fourth of Japan's 1985 natural gas requirements.

The Japanese are gradually absorbing the technology needed to develop oil and gas supplies abroad, but they still lack access to resources. Despite recent efforts to purchase concessions abroad, the Japanese have only a handful of producing fields and, except for a few, output is negligible. Japan will no doubt seek access to promising new concessions.

being explored by US and West European firms--offering to help finance development costs. In return, Japan will insist on taking a substantial share of the output. Japan probably also will persist in its long-term efforts to secure oil and gas from the USSR, even though the Soviets refuse to disclose the size of reserves and have sharply reduced promised oil deliveries from the Tyumen pipeline project.

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Chile: The EC has agreed to release shipment of a 20,000-ton wheat donation to Chile on condition that delivery and marketing be supervised by the Chilean Red Cross. The wheat will be shipped in December.

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Peru: Antigovernment students and teachers are planning demonstrations today to protest recent government moves against a left-wing teachers' union. The regime has taken a hard line against opposition groups in recent weeks, and further disturbances may present the government with a serious problem.

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*\*These items were prepared by CIA without consultation with the Departments of State and Defense.*

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